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BTC Brief

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*Timely,
accessible,
and credible
analysis of
state and local
budget and tax
issues*

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TIME TO STEP UP:

With Federal Recovery Funds Gone, State Lawmakers Must Recommit to Funding Public Education with General Fund Appropriations

KEY FINDINGS:

- **Funding for public education has always been a shared responsibility of state, federal and local governments with the majority of investment carried by states.**
- **Starting in FY2012-13, North Carolina will have spent almost all federal recovery funds supporting public education through the American Recovery and Reinvestment Act (ARRA), and no further federal recovery funding for public schools will be available.**
- **Federal funds for public education were intentionally used to supplant state General Fund appropriations from FY2008-09 through FY2011-12 in order to reduce the impact of the business cycle on the classroom and educational experience.**
- **Analysis of North Carolina ARRA expenditure data for K-12 education from FY2008-09 to FY2011-12 shows that 92 percent of these federal funds for public education – a total of \$1.47 billion – was used to pay public school salaries and benefits for thousands of teachers and other classroom personnel.**
- **Starting in FY2012-13, with temporary federal funds gone, state government will need to re-assume primary responsibility for funding public education in order to fairly and adequately serve a growing K-12 student population.**

AS POLICYMAKERS RETURN TO THE GENERAL ASSEMBLY THIS MONTH, they will once again consider spending decisions in light of a slow economic recovery and depressed revenues. The collapse in revenues brought on by the Great Recession, intensified by an out-of-date revenue system, created successive budget shortfalls that reduced the availability of dollars for a range of state investments, including public education.¹

North Carolina's investment in public education via state appropriations represents 62 percent of the total dollars spent to support children's education and preparation for the workforce.² The collapse in revenue in North Carolina and across the country threatened to undermine the educational infrastructure critical to future economic success and the creation of economic opportunity.³

Through the American Recovery and Reinvestment Act of 2009, policymakers were able to use federal

funds to reduce their reliance on spending cuts to balance the state's budget.⁴ However, these temporary federal dollars for public education will no longer be available when the new school year begins this fall.

ARRA's State Fiscal Stabilization Fund

Congress approved The American Recovery and Reinvestment Act (ARRA) to ease the impact of the Great Recession on communities across the country by enabling job preservation and creation, infrastructure investment, research, and state and local fiscal stabilization.⁵ Under ARRA, funds for public education were made available to support states and school districts as state and local revenue collections plummeted in the wake of the Great Recession.⁶

The ARRA stimulated the U.S. economy with \$862 billion in tax cuts and new federal spending, including nearly \$100 billion in one-time funding for new and existing education programs. The largest single education program included in the law was the State Fiscal Stabilization Fund, a \$48.6 billion program that provided direct grant aid to state governments in 2009 and 2010.⁷

Federal lawmakers designed the program to help states maintain support for K-12 and higher education so that educational experiences could be maintained and teacher jobs retained in the context of state budget shortfalls.⁸ A national survey of local school districts in spring 2011 found that these dollars were primarily used to retain instructional positions, and a majority of the school districts reported being able to maintain service levels for students as a result.⁹ Evidence from other researchers suggests that federal funds served to protect investments that directly impact student learning by maintaining investments in instruction.¹⁰

Education Spending in North Carolina

In North Carolina, as in all other states, federal funds for education were intentionally used to supplant state General Fund appropriations for education during the Great Recession. North Carolina received \$1.57 billion in ARRA funding for education from FY2008-2009 through FY2010-2011.^{11,12} The single largest source of funds was \$1.16 billion from the State Fiscal Stabilization Fund for Education, which provided the money to states with the caveat that they could not cut General Fund support for K-12 education lower than FY2005-06 levels. The State Fiscal Stabilization Fund also gave states the option to use the funds to restore overall funding for K-12 education to either 2008 or 2009 levels, whichever was higher.¹³

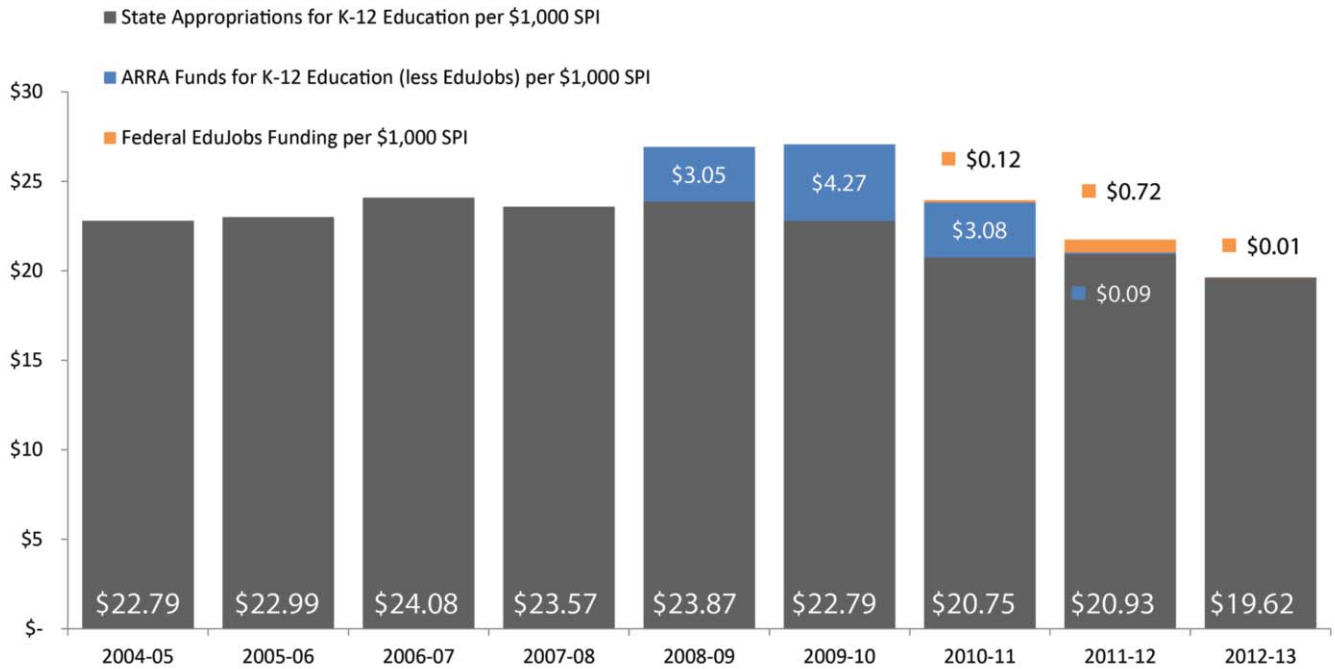
In North Carolina, with the exception of about \$255 million in federal Education Jobs money, all ARRA funding for public education had been expended by the end of FY2010-11. The Education Jobs money under ARRA was made available for the first time in FY2010-11, but most North Carolina schools chose not to spend at that time, instead using it to meet obligations in the current fiscal year, FY2011-12.¹⁴

Analysis of ARRA expenditure data for K-12 education from FY2008-09 to FY2011-12 shows that 92 percent of all funds available to North Carolina under ARRA for public education – a total of \$1.47 billion – was used to pay for salaries and benefits of public school employees, including thousands of teachers and other classroom personnel.¹⁵ In so doing, these dollars maintained classroom sizes, instructional support for students and kept some workers employed in the downturn and subsequent slow recovery. This suggests that North Carolina public schools' use of ARRA funding for education through the Great Recession and subsequent economic recovery has been similar to of thousands of other public schools throughout the United States.

Despite ARRA funds, data from the NC Department of Public Instruction derived from payroll records shows a dramatic loss in the total number of personnel working in North Carolina's public schools over the same time period.¹⁶ This is consistent with the experience of many other U.S. states over the Great Recession¹⁷ and suggests that although federal recovery money was available and lawmakers raised

Even with recovery dollars, state investment in public education as a share of North Carolina's economy is lower than before the Great Recession

State appropriations for K-12 education per \$1,000 in state personal income (SPI)



temporary taxes, both measures in combination still fell short of fully and adequately funding public education during the Great Recession and slow recovery.

In part, the inadequacy of public school funding over the Great Recession and recovery has been attributable to budget pressures created by a growing student population. From school year 2008 to 2012, the student population grew by nearly 20,000, or 1.5 percent.¹⁸ As the state takes up its responsibility for public education, there will appear to be a sizeable year-to-year increase in state-only funding for education. However, in the full context of total spending on public education from all sources – state, federal, and local – this spending is needed to maintain investments in public education necessary and keep pace with growth in the student population.

Maintaining Education without Federal Stimulus Money

Once all remaining federal funds have been expended, a larger share of the responsibility for funding public education will shift back to state government, where it has historically rested. It will be critical that state policymakers recommit to maintaining and increasing the capacity of North Carolina's schools to fairly and adequately serve a growing K-12 student population by adequately funding public education. This funding is necessary to continue North Carolina's investment in long-term economic prosperity – namely, the education and development of our future workforce.

North Carolina Local Education Agency (LEA) Level Expenditures Major ARRA Programs and Total ARRA Spending by Object

As of February 29, 2012

Category	Object	ARRA - Education	ARRA - Title 1	ARRA - IDEA VI-B	Education Jobs Fund	All other ARRA for K12 Education	Total ARRA
Capital Outlay	Equipment	\$ 210,156	\$ 738,725	\$ 598,459	\$ -	\$ 14,143,406	\$ 15,690,746
	Other Improvements	\$ 96,450	\$ -	\$ -	\$ -	\$ -	\$ 96,450
	Capital Outlay Total	\$ 306,606	\$ 738,725	\$ 598,459	\$ -	\$ 14,143,406	\$ 15,787,196
Employee Benefits	Annual Leave Pay	\$ 371,247	\$ -	\$ 269	\$ -	\$ -	\$ 371,516
	Disability	\$ 102,337	\$ 30,709	\$ 163,514	\$ -	\$ 8,096	\$ 304,656
	Employer's Social Security Cost	\$ 41,353,097	\$ 12,806,740	\$ 16,100,387	\$ 9,756,905	\$ 3,094,182	\$ 83,111,311
	Insurance Benefits	\$ 84,628,824	\$ 20,198,043	\$ 26,030,140	\$ 19,218,226	\$ 2,983,437	\$ 153,058,670
	Longevity Pay	\$ 3,705,208	\$ 1,196,654	\$ 2,325,701	\$ 885,503	\$ 286,227	\$ 8,399,293
	Retirement Cost	\$ 53,370,309	\$ 15,889,584	\$ 20,600,995	\$ 16,425,354	\$ 4,216,928	\$ 110,503,170
	Employee Benefits Total	\$ 183,531,021	\$ 50,121,731	\$ 65,221,006	\$ 46,285,988	\$ 10,588,870	\$ 355,748,616
Other	Debt Services and Other Cost	\$ 13,095,714	\$ 5,646,813	\$ 7,065,903	\$ 9,095	\$ 1,314,136	\$ 27,131,661
	Dues & Fees	\$ 662,479	\$ -	\$ 4,009	\$ -	\$ 45,754	\$ 712,242
	Food Supplies	\$ -	\$ 99,236	\$ -	\$ -	\$ 53,044	\$ 152,280
	Insurance & Judgments	\$ -	\$ -	\$ -	\$ -	\$ 27,318	\$ 27,318
	Sales and Use Tax	\$ (8,438)	\$ (143,628)	\$ (135,889)	\$ -	\$ (219,026)	\$ (506,981)
	Other Total	\$ 13,749,755	\$ 5,602,422	\$ 6,934,023	\$ 9,095	\$ 1,221,224	\$ 27,516,519
Purchased Services	Advertising	\$ 434	\$ 8,980	\$ 564	\$ -	\$ 5,747	\$ 15,725
	Communications	\$ -	\$ 8,319	\$ 210	\$ -	\$ 10,511	\$ 19,040
	Contracted Services	\$ 477,467	\$ 743,806	\$ 4,608,938	\$ -	\$ 7,845,576	\$ 13,675,787
	Other Purchased Services	\$ -	\$ -	\$ 25,873	\$ -	\$ 187,004	\$ 212,877
	Printing & Binding	\$ -	\$ 170	\$ 9,611	\$ -	\$ 81,829	\$ 91,610
	Property Services	\$ -	\$ 188,563	\$ 563	\$ -	\$ 79,555	\$ 268,681
	Transportation Services	\$ 25,125	\$ 2,386,650	\$ 2,029,753	\$ -	\$ 806,430	\$ 5,247,958
	Workshops	\$ 43,763	\$ 3,130,519	\$ 1,456,711	\$ 2,158	\$ 7,440,595	\$ 12,073,746
	Purchased Services Total	\$ 546,789	\$ 6,467,007	\$ 8,132,223	\$ 2,158	\$ 16,457,246	\$ 31,605,423
Salary	Assistant Principal	\$ 8,952,171	\$ 1,080	\$ -	\$ 9,293,448	\$ 664,349	\$ 18,911,048
	Assistant Superintendent	\$ 72,859	\$ -	\$ -	\$ -	\$ 1,080	\$ 73,939
	Associate Superintendent	\$ 195,532	\$ -	\$ -	\$ -	\$ -	\$ 195,532
	Bonus Pay	\$ 16,792	\$ 68,276	\$ 10,714	\$ -	\$ 3,126,099	\$ 3,221,881
	Classified Principal/Headmaster	\$ 4,171,911	\$ -	\$ -	\$ 2,537,193	\$ 81,598	\$ 6,790,702
	Clerical Personnel	\$ 167,089,073	\$ 874,293	\$ 802,609	\$ 25,931,107	\$ 768,558	\$ 195,465,640
	Custodians and Other Assignments	\$ 144,294,224	\$ 664,388	\$ 2,327,294	\$ 10,331,926	\$ 837,279	\$ 158,455,111
	Director/Supervisor	\$ 1,583,074	\$ 1,944,507	\$ 2,487,234	\$ -	\$ 1,878,332	\$ 7,893,147
	Finance Officer	\$ 143,363	\$ -	\$ -	\$ -	\$ -	\$ 143,363
	Instructional Support	\$ 7,331,769	\$ 32,169,266	\$ 20,473,559	\$ 6,553,752	\$ 8,504,994	\$ 75,033,340
	Mentor Pay	\$ 182,759	\$ 123,454	\$ 47,895	\$ 33,662	\$ 301,178	\$ 688,948
	Non-Instructional Specialist	\$ 637,330	\$ 2,339,802	\$ 4,796,771	\$ 520,507	\$ 1,274,759	\$ 9,569,169
	Overtime Pay	\$ 1,543,100	\$ 97,830	\$ 215,683	\$ 597,073	\$ 9,348	\$ 2,463,034
	Substitute Pay	\$ 9,537,781	\$ 1,611,470	\$ 2,603,105	\$ 1,678,677	\$ 131,786	\$ 15,562,819
	Superintendent	\$ 34,347	\$ -	\$ -	\$ -	\$ -	\$ 34,347
	Supplement and Differential	\$ 7,601,015	\$ 9,920,666	\$ 11,306,423	\$ 4,939,190	\$ 2,608,683	\$ 36,375,977
	Teacher	\$ 193,235,604	\$ 87,363,610	\$ 127,416,190	\$ 57,421,679	\$ 11,113,544	\$ 476,550,627
	Teacher Assistant & Aides	\$ 8,087,652	\$ 27,365,722	\$ 44,133,966	\$ 13,263,267	\$ 3,410,882	\$ 96,261,489
	Transportation	\$ 3,187,836	\$ 114,131	\$ 32,264	\$ 467,846	\$ 87,479	\$ 3,889,556
	Tutor	\$ 397,722	\$ 6,442,108	\$ 486,812	\$ 249,058	\$ 3,349,338	\$ 10,925,038
Salary Total	\$ 558,295,917	\$ 171,100,604	\$ 217,140,517	\$ 133,818,386	\$ 38,149,283	\$ 1,118,504,707	
Supplies and Materials	Computer Software & Supplies	\$ 11,445	\$ 972,531	\$ 571,797	\$ -	\$ 3,696,598	\$ 5,252,371
	Instructional Supplies	\$ 32,560	\$ 3,493,104	\$ 3,186,172	\$ -	\$ 3,748,876	\$ 10,460,712
	Library/Audiovisual Services	\$ -	\$ 198,318	\$ -	\$ -	\$ 315,516	\$ 513,834
	Non-Capitalized Equipment	\$ 704,282	\$ 5,479,054	\$ 4,539,912	\$ -	\$ 25,326,770	\$ 36,050,018
	Textbooks	\$ -	\$ 676	\$ -	\$ -	\$ 104,850	\$ 105,526
	Transportation (Supl. & Mat.)	\$ -	\$ -	\$ 47,411	\$ -	\$ 219,161	\$ 266,572
Supplies and Materials Total	\$ 748,288	\$ 10,143,683	\$ 8,345,293	\$ -	\$ 33,411,770	\$ 52,649,034	
Grand Total, All ARRA Programs		\$ 757,178,376	\$ 244,174,172	\$ 306,371,520	\$ 180,115,628	\$ 113,971,797	\$ 1,601,811,493

SOURCE: ARRA program expenditure data shown here was accessed via the North Carolina Public Schools' ARRA reporting web application on February 29, 2012. This data is revised and updated frequently as individual school units report expenditures to DPI.

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- 2 North Carolina Department of Public Instruction, North Carolina Public Schools Statistical Profile. Available online at <http://apps.schools.nc.gov/pls/apex/f?p=1:1:876397576149063>
- 3 Findings from analysis of prior recessions found cuts to education significant, see Holahan, John, Teresa A. Coughlin, Randall R. Bovbjerg, Ian Hill, Barbara A. Ormond, and Stephen Zuckerman. "State Responses to 2004 Budget Crises: A Look at Ten States." Washington, D.C.: The Urban Institute (February 2004), Ladd, Helen F. "How School Districts Respond to Fiscal Constraint" in Selected Papers in School Finance, 1996, William J. Fowler Jr. (ed). Washington: National Center for Education Statistics (1997): 39-59 and Reschovsky, Andrew. "The Impact of State Government Fiscal Crises on Local Governments and Schools." State and Local Government Review 36 (2) (Spring 2004): 86-102.
- 4 Sirota, Alexandra Forter. "BTC BRIEF: What Could Have Been: Avoiding Great Depression 2.0." Available at <http://www.ncjustice.org/?q=node/602>
- 5 American Recovery and Reinvestment Act of 2009, H.R. 1, 111th Congress of the United States of America. Accessed at: <http://www.gpo.gov/fdsys/pkg/BILLS-111hr1enr/pdf/BILLS-111hr1enr.pdf>
- 6 US Department of Education, November 2009, American Recovery and Reinvestment Act Report: Summary of Programs and State by State Data.
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- 8 CRS-R40151, April 2009, Funding for Education in the American Recovery and Reinvestment Act of 2009, PL 111-5, Washington, DC,
- 9 General Accounting Office, September 2011, Funding Retained Teachers, but Education Could More Consistently Communicate Stabilization Monitoring Issues. Washington, DC.
- 10 Chakrabarti, Rajashri and Elizabeth Setren, December 2011. The Impact of the Great Recession on School District Finances: Evidence from New York. Federal Reserve Bank of New York Staff Report no. 534 and Cavanaugh, Sean, 2011. "Educators Regroup in Recession's Aftermath," Education Week.
- 11 Public Schools of North Carolina, The American Recovery and Reinvestment Act (ARRA) Expenditures: State Level Expenditures, ARRA Programs – as of January 31, 2012. Reporting application available online at <http://apps.schools.nc.gov/pls/apex/f?p=122:1:0::NO::>
- 12 Excludes \$44.9 million in Race to the Top funding received since it became available in 2011.
- 13 American Recovery and Reinvestment Act of 2009, Public Law 111-5 (H.R. 1), February 17, 2009; 123 Stat. 115. As amended by Public Law 111-8 (H.R. 1105), the Omnibus Appropriations Act, 2009; Division A, Section 523; March 11, 2009; 123 Stat. 524
- 14 McLenaghan, Edwin, September 2011. North Carolina's Disappearing Educators. BTC Brief: NC Justice Center, Raleigh, NC.
- 15 See chart at end of this brief for detail on ARRA expenditures by category of public school personnel. Source: Public Schools of North Carolina, The American Recovery and Reinvestment Act (ARRA) Expenditures: State Level Expenditures, ARRA Programs – as of January 31, 2012. Reporting application available online at <http://apps.schools.nc.gov/pls/apex/f?p=122:1:0::NO::>
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- 18 NC Department of Public Instruction, 2012. Growing Student Population Served by Fewer Adults. Accessed at: <http://www.ncpublicschools.org/docs/fbs/budget/spendingtrends.pdf>